

FISCAL NOTE

SB 3158 - HB 3182

February 8, 2008

SUMMARY OF BILL: Requires combined reporting for franchise and excise tax purposes; reduces the state sales tax rate on food from 5.5 percent to 3.5 percent.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$153,559,000

**Increase State Expenditures - \$322,400 / One-Time
\$1,627,100 / Recurring**

Decrease Local Revenue - \$8,354,000

Assumptions applied to sales tax exemption on food:

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- According to the Department of Revenue (DOR), state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY06-07 were approximately \$495,000,000.
- The state sales tax rate on food was 6.0% in FY06-07.
- FY06-07 taxable food sales were approximately \$8,250,000,000 ($\$495,000,000 \div 6.0\% = \$8,250,000,000$).
- Annual growth in taxable sales is estimated to be 5.0% per year (consumer price index on food prices increased 4.9% from December 2006 to December 2007).
- Adjusted taxable sales are estimated to be \$9,095,625,000 for FY08-09.
- The decrease of state sales tax revenue resulting from the proposed 2.0% rate reduction for food sales is estimated to be \$181,913,000 ($\$9,095,625,000 \times 2.0\% = \$181,912,500$) in FY08-09.
- The estimated \$181,913,000 in state sales tax revenue would have been apportioned as follows in FY08-09: \$52,800,000 to the General Fund, \$118,420,000 to education, \$8,354,000 to local governments, \$668,000 to the Department of Revenue, and \$1,671,000 to the Sinking Fund.
- Local governments are not held harmless from the loss of state-shared sales tax revenue (\$8,354,000 in FY08-09).

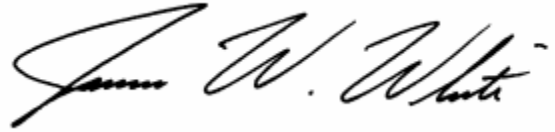
- The net decrease to state revenues for FY08-09 is estimated to be \$173,559,000 (\$181,913,000 - \$8,354,000 local share = \$173,559,000).
- The state will forego additional sales tax revenue in subsequent years due to the natural growth of taxable food sales.

Assumptions applied to combined reporting:

- The fiscal impact of combined reporting for franchise and excise tax is dependent upon multiple unknown factors.
- According to DOR, research on similar estimates from other states that have enacted or contemplated enacting combined reporting shows the potential for an increase of tax revenue between 10% and 20%.
- DOR suggests that the impact in Tennessee could be much less than amounts estimated for other states due to the fact that financial institutions are currently required to file combined returns and taxpayers also have the current option for franchise tax to elect to report their net worth on a consolidated basis. The department suggests any positive impact would certainly be mitigated by these factors.
- Based on information provided by DOR, and the impact of combined reporting being dependent upon factors mentioned above and other multiple unknown factors, a specific estimate cannot be quantified. However, the increase to state revenue resulting from combined reporting is reasonably estimated to exceed \$20,000,000 per year.
- According to DOR, significant additional resources will be required to accomplish the provisions of this bill (three Tax Audit Supervisor positions; three Tax Auditor 4 positions; three Tax Auditor 3 positions; nine Tax Auditor 2 positions; three Revenue Audit Technicians; and four Tax Registration positions). The increase to recurring state expenditures for these 25 positions is estimated to be \$1,627,100 (salary, benefits, supplies, communications, etc.). One-time state expenditures related to creating these additional positions is estimated to be \$113,400 (computers and software).
- One-time state expenditure for computer enhancements and software modifications estimated to be \$209,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible, and "W." in the middle.

James W. White, Executive Director

/rnc